MUNICIPAL TAXATION IN RELATION TO SPECULATIVE LAND VALUES

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Whatever may be said of the ultimate basis of national or state and provincial taxation, municipal taxation, at least, is essentially based upon the fact that where increasing numbers of people find it necessary to live together in a more or less limited area, it is essential for elementary safety and comfort that they should undertake to maintain certain services in common. These needs expand with the increasing size of the civic centre and the developing wants of the citizens. After providing for the primary and more indispensable needs, there naturally arises the desire to provide for secondary and higher needs. Organized society, as Aristotle put it, comes into existence to make life possible and continues and develops in order to make life good.

In any considerable centre of population it is plain that there must be coöperation in providing for the supply of those primary needs previously so easily satisfied, if felt at all, in the open freedom of the country. Chief of these are pure water, drainage and sanitation, suitable highways for constant traffic, equipment for the prevention of fires and for the general police protection of life and property. While these primary needs are in process of being met, various secondary needs emerge, such as the need for schools, libraries, parks, the regulation of buildings, and other measures to improve, on the one hand, the atmosphere of civic life and, on the other, its intellectual and artistic quality. In a modern community, making any claim to be ranked as civilized, its individual members cannot be left to make voluntary provision for the supply of these very essential needs, such provision must be placed at the service of every member of the community, whether he may or may not be able to make a proportionate contribution towards the necessary outlay. Thus the taxes which are levied to sustain the various civic departments cannot be regarded as payment for services rendered, on any basis of economic exchange, but as a necessary contribution towards a public charge which must be met as a civic duty. At the same time

the levying of a civic tax should not be open to the charge of injustice or unfairness from the point of view of individuals having similar obligations and similar capacities to meet them.

On the other hand, well ascertained public opinion on the grounds of economic service may support the policy of providing citizens with a street car, or telephone service, or the supply of light, heat, or power, in such forms as electricity or gas. These services, however, cannot be supplied on the same basis as police, or fire protection, or general sanitation. However convenient or even essential when once established, such services must be supported by those who directly benefit by them, on the same principles of exchange as would apply to their provision by private individuals or corporations. The very different grounds on which contributions are made by the citizens to the support of a fire department and an electric light department indicate the essential distinction between municipal taxation and ordinary exchange payments for services rendered. An individual citizen may be given the option of walking to his place of business or riding in a civic tram, but cannot be given the option of leaving his house unprotected against fire while his neighbor is so protected. If, then, some citizens are unable to meet their full share of the cost of fire protection, other citizens must contribute more than their proportion of this cost. The question therefore arises, on what basis should compulsory taxes be levied, as contrasted with the voluntary exchange payments for civic services?

Without arguing the matter in detail, it may be fairly claimed that the only practical basis of regular civic taxation is the basis of ability to pay; and ability to pay necessarily rests upon the average net income enjoyed by the individual citizens, whether singly or in corporations. But, while ability to pay is dependent upon income as a permanent condition of tax paying, it is often very difficult to determine net income, especially where capital is employed, not in a fixed form, but largely as fluid or exchange capital; while the difference between the outgoing and incoming stream is the only indication of net income.

In all normal forms of taxation, whether based upon ability to pay or not, few practical distinctions can be made as between incomes acquired as the result of exceptional personal quality or close attention to business, and incomes derived from forms of investment which call for little exertion on the part of the owner of the capital.

An attempt to follow up this distinction to some extent and to make the relative value contributions of the individual and of the community determining factors in the levying of taxes, is manifested in the arguments for the so-called single tax on land values. It is not possible within our space to pass in review the curious medley of half-truths and more largely proportioned misconceptions in the sphere of economics, directed to the philanthropic object of a universal redemption of mankind, morally, socially and politically, but argued with a most misanthropic fervor against all who question the validity and claims of the system set forth. The fundamental principle maintained is that the local community as a whole contributes to land its entire economic value, while other economic values are derived from human labor and enterprise. This, however, is contrary to obvious facts, it being evident that while no values can exist without reference to the needs of a community, to determine what proportion of human effort or enterprise must cooperate with these needs to furnish articles or services of different values is a very complex and variable problem, and it is as variable in the case of land as in the case of many other articles. Moreover, the community which contributes to the value of land, especially its speculative or exceptional value, is a community some of whose most influential elements reside far from the municipality or even the state or province which would exclusively benefit by a tax levied upon land values alone.

Again, the claim put forward that the single tax would, on the one hand, be a check on land speculation, and, on the other, bring into the civic treasury a considerable share of the speculator's gains, is plainly contrary to the facts. It is just the successful speculator who suffers least of all from any annual tax upon land. The really successful speculator, as evidenced in the remarkable history of land speculation in many western Canadian towns and cities during the past few years, holds his land for so short a period, and makes such phenomenal gains on his sales, that no annual tax on land can do more than take the merest fragment of his profits. On the other hand, when he is through with his land speculation, having accumulated fabulous wealth within a very brief period, he naturally places it in other and safer forms of permanent investment. There, under the single tax system, it would be safe from the tax collector to whose perennial visits the speculator leaves his latest victims, to have their

economic life crushed between the millstones of collapsing land values and rising tax rates.

But while the single land tax conspicuously fails to reach the pocket of the successful land speculator, there is no one whose gains may be more legitimately laid under heavy tribute for civic needs. As a matter of fact the real prices of land before and after a land boom plainly indicate that much the larger proportion of what the shrewd land speculator has dealt in, under the guise of land sales, are simply carefully dressed visions of sudden wealth to be obtained by the transfer of city lots. The lots themselves may have little permanent interest for either party to the speculation. Those, however, who have a permanent use for them can obtain them only at the speculative rates which they bear as counters in the game of land speculation.

One of the most disheartening features in the long period of stagnation and slow recovery, which follows the collapse of a land boom in an over-grown and over-built city, is the legacy of debt and heavy interest charges which is entailed upon the unfortunate citizens. Indeed, during the boom period, a great many expenses which should have been met from the annual taxes are paid out of the proceeds of loans. After the boom, however, not only have these charges to be met out of annual taxes, but also the full interest on the millions borrowed, as well as many repairs and minor replacements rendered necessary by imperfect work under inadequate supervision. Thus, after the boom, the annual taxation may be considerably greater than during the period of flush times and special expenditure. The interest charges alone in many of the best boomed cities in Canada amount to from one-fourth to one-third of the annual taxes. If provision is being made for a sinking fund, the proportion is of course considerably increased.

Now it is commonly found that these great burdens have to be borne in the largest measure, especially if any form of single tax is in operation, not by the successful speculators, who have disposed of the greater part of their land holdings, but by their unfortunate victims, many of whom are forced to purchase their lands for residence or other permanent uses and to pay for them the boom prices, which could not be subsequently recovered.

Obviously, what is required is some system of civic taxation which will be as rapid and effective in operation and as generous in

its levies upon exceptional profits as are the operations and the gains of the successful land speculator. Clearly also this will not be the slow biennial system of taxation, which assesses the property one year and collects the taxes the following year. During this time, in cases of the really typical civic boom, such as we have had in numerous towns and cities in both the United States and Canada, the property may have changed hands scores of times; often, in single transfers, at an increase in value anywhere from 25 to 100 per cent, or more. Nor can effective taxation of the speculator have reference to any rental value of the properties dealt in, rental value being practically non-existent during a civic boom. It must be a system which provides for an automatic tax levy at every legal transfer of the property, and which collects the taxes from the purchaser as part of the price which he has agreed to pay for the land. Moreover, the levy must increase in percentage as the scale of profit increases, thus strictly following the central principle of taxing according to ability to pay.

Such a system of taxation, however, and the application of the proceeds thereof, must be entirely distinct from the system of annual taxation required to meet the current needs of the municipalities. The situation involves a sharp distinction between two forms of civic expenditure. First, we have the expenditure which provides for the regular annual needs of the citizens under normal conditions of civic life. Secondly, we have the capital expenditure, quite irregular as to the periods of the outlay, but which is called for in furnishing a city, frequently all at one time, with a well equipped plant or series of plants to meet the modern needs of the citizens. This is distinct from the annual expenditure in maintaining and operating the plants, and which falls within the scope of annual revenue and expenditure. Thus the provision of an adequate civic water supply, the construction of a well planned system of drainage and sewage disposal, the grading and paving of streets, the provisions for squares and parks, the necessary equipment for fire protection, the erection of public buildings, such as civic buildings, schools, etc., represent a very great outlay which is quite independent of the annual expenditure in maintaining and operating these civic institutions. At present this capital outlay is provided in the shape of huge municipal loans, the subsequent interest on which absorbs from one-fourth to one-third of the annual taxes in many Canadian towns and cities.

In a slowly growing city these expenditures extend over a very considerable period and if a sinking fund is provided for, it may be possible to secure the extinction of one loan on capital account before another requires to be effected. This, however, is a very rare experience among modern cities on this continent. Many towns and cities have suddenly grown up under the stimulus of a speculative fever and have been forced to incur enormous debts within a very brief period, and their capital outlays take place when prices and wages are at high water mark. This means that the capital expenditure is coincident with and commonly due to the very land booms which furnish such enormous gains for the successful land speculators.

A study of the various stages in the growth of a city boom reveals the interesting fact that once the future city is launched on an active period of expansion, (a movement commonly arranged by a group of shrewd and courageous speculators who manage to attract considerable capital from outside sources), the influx of population which is attracted soon creates more work for itself than for its employers. In other words, it requires more workmen in the building and allied trades to build houses to accommodate the workmen themselves than are required to erect buildings for their employers. Further, the incoming army of workmen provides customers for a large body of merchants and middlemen and their employees and dependents, who in turn must all be provided with houses and places of business, again augmenting the numbers to be employed in the building trades. Another class of citizens must provide material and implements for building, and for the equipment and furnishing of these buildings. So the circle continues to widen through agencies of every kind, including bankers, lawyers, doctors, clergymen, teachers, with all the buildings and equipment which they require to carry on their businesses and professions.

At the head of this procession, the original apostles of faith in indefinite expansion, stimulating every form of civic expenditure and of private and corporate investment, are the shrewd and couragous land speculators, reaping phenomenal harvests of profit, and, as becomes men of far-sighted instincts, not envious of the lesser prophets who follow in their wake, imitating their methods and frequently furnishing them with customers.

As experience indicates, a rapid expansion in civic debt goes hand in hand with a rapid expansion in city building and the growth

of population, while an active land speculation accompanies and stimulates both. Now all that is required to transfer a large proportion of these speculative gains from the rapidly expanding bank account of a successful land speculator to the coffers of the city treasury, is to provide, somewhat after the plan adopted in Britain, the necessary legal authority and comparatively simple administrative machinery. Provision ought to be made that the value of each piece of land shall be assessed, as early in its economic career as possible, at its actual market value. Thereafter at the period of each legal sale of the land, when the buyer pays more than its registered value or its value at the last transfer, a certain percentage of the increased value shall be first paid into the civic treasury, and the remainder to the seller as may be agreed upon. The percentage to be thus taken by the municipality shall be graded according to an appointed scale, increasing with an increase in the rate of profit and shortness of time since the previous sale. The price at which each sale takes place shall be registered with the title of the land and will thus be made known to the subsequent purchasers when looking up the title. The registered price at the last transfer would be the basis of information to the purchaser as to what proportion of the price which he has agreed to pay, he must transfer to the city, and what proportion shall be paid to the seller of the land. Take a hypothetical case:—A purchaser, who found that the price which he had agreed to pay for a piece of land was 25 per cent more than the seller had paid for it within a year past, might be required to pay one-third of the increase to the civic treasury and the remainder to its seller. If, however, the profit received were 50 per cent, then he might be required to pay 40 per cent of this profit to the city, and so on according to a graded scale, until, if the profit were 200 or 300 per cent, he might be required to transfer 70 or 80 per cent of it to the civic treasury. If, however, the sale took place not within the year but two or three years after the last sale, the rate should be diminished according to another scale, taking into account interest charges, annual taxation, improvements on the land, etc., which would tend to diminish with time the profits of the sale. Again, if no sale should take place within a given period of five, or possibly ten years, the property should be re-valued and a percentage of the increased value taken on the same basis as to the rate of increase and duration of time as if a sale had taken place at the close of the period. Under this system, while the

aggregate gain to the speculator would still amount to a very attractive profit on his investments, the share coming to the municipality would automatically keep pace with the rise in price, and the rapidity, volume and profit of the land sales.

As already indicated, this form of taxation is intended, on the one hand, to provide for special capital expenditures and not for annual revenues; and, on the other, to secure a reasonable share of the special profits from exceptional increases in land values, especially during short periods. One of its chief virtues, from the point of view of ability to pay, is that it taxes high profits only while these profits are being obtained, and especially while they are being rapidly obtained. When, however, speculation ceases and values remain stationary or decline, this special tax automatically ceases also. It takes nothing from any purchaser who makes no profit on his sales or on his holdings. It is, however, during such periods of stagnation, when the various municipalities are not expanding, that their capital expenditure is certain to be correspondingly light. At the same time the annual needs will be met by the annual taxes on real estate and incomes, above a certain rate, from other sources of invested wealth or personal service.

Certain minor details would, of course, require to be considered in bringing such a scheme of taxation into general operation; but the simple and direct basis of the tax, the important purpose which it would serve, partly in checking extravagant speculation, and partly in furnishing an indispensable capital fund for civic equipment just at the time and in proportion to the need for capital outlay, ought to commend it to the practical consideration of state and provincial governments in both Canada and the United States.